



EBRI News

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New Research from EBRI:

Average Couple Today Needs \$295,000 for Retiree Health Expenses

WASHINGTON—A couple age 65 retiring today and living to average life expectancy would need \$295,000 to cover premiums for health insurance and out-of-pocket expenses during retirement, according to a study published today by the nonpartisan Employee Benefit Research Institute (EBRI).

The \$295,000 estimate assumes average life expectancy of 82 for men and 85 for women. But for those living longer than the average, a lot more money is needed: If the couple lives to age 95, they would need \$550,000 to cover premiums and out-of-pocket expenses. Both estimates are for retirees who have access to retiree health benefits from a former employer but pay the full premium.

The estimates appear in the July 2006 *EBRI Brief*, which examines health care expenses in retirement in detail. The *Issue Brief*, "Savings Needed to Fund Health Insurance and Health Care Expenses in Retirement," available at www.ebri.org, also includes estimates for individuals living to various ages. As the study notes, many retirees are likely to need even more than these amounts, due to health cost inflation and other factors.

"As high as they are, these projections are probably underestimating the amount of money needed in retirement for health care expenses," writes Paul Fronstin, director of the EBRI health research and education program. "If health care costs increase faster than projected, or if individuals live beyond average life expectancy, retirees will need more money."

The estimates do not include the possible cost of long-term care. In addition, Medicare, the federal health care program for the elderly, faces a substantial shortfall in 2018. To address this shortfall, Congress is more likely to reduce Medicare benefits than it is to enhance them, Fronstin writes. "Furthermore, increasing life expectancy and innovations in medical technology will further put pressure on national health spending, and may ultimately mean that retirees will have to pay an increasing burden of health costs during retirement."

The study notes that EBRI studies since the mid-1990s have found that fewer employers are offering retiree health benefits. This trend is largely the result of accounting rules in the 1990s that require retiree health liabilities to be recorded on employers' books. Because of these rules and the rising cost of providing retiree health benefits, most workers in the United States will never be eligible for health insurance in retirement through an employer, the study says.

Workers have several options to save for retirement health care expenses, but none is sufficient to come close to covering projected retiree health costs. The study says that health savings accounts (HSAs), which are currently being widely promoted, have both advantages and drawbacks. Because contributions are limited, the maximum amount than an individual could save in an HSA is \$46,000 over 10 years.

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